

Message Text

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15

ACTION EUR-12

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AMCONSUL THESSALONIKI

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E.O. 11652: N/A

TAGS: EGEN, ECON, EFIN, GR

SUBJECT: BANK OF GREECE GOVERNOR COMMENTS ON ECONOMIC DEVELOPMENTS

REF: (A) ATHENS 279; (B) ATHENS 9074, DEC 23, 1974;

(C) ATHENS 7494, OCT 27, 1973

1. LOCAL PRESS GAVE WIDE COVERAGE FEBRUARY 12 TO REMARKS REPORTEDLY MADE BY BANK OF GREECE GOVERNOR XENOPHON ZOLOTAS IN INTERVIEW WITH DAVID MAZZARELLA, MANAGING EDITOR ROME'S "DAILY AMERICAN." EMBASSY HAS BEEN UNABLE LOCATE TEXT OF MAZZARELLA ARTICLE. FOLLOWING PARAGRAPHS BASED ON GREEK PRESS REPORTS.

2. DRACHMA PARITY: ZOLOTAS IS QUOTED AS ADVOCATING TERMINATION OF LINKAGE WITH DOLLAR, AND ESTABLISHMENT OF DRACHMA AS "A FLOATING CURRENCY." HE CATEGORICALLY DENIED THAT GOG HAS PRESENTLY ANY PLANS TO DEVALUE. COMMENT: EMBASSY REPORTED IN REFS (A) AND (B) THAT BANK OF GREECE HAS BEEN EXAMINING POSSIBILITY OF CHANGING METHOD OF EXPRESSING VALUE OF DRACHMA. IT IS HIGHLY IMPROBABLE
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THAT GOG WOULD ADOPT TRUE FLOAT. MORE PROBABLE IS ADOPTION OF

SYSTEM SIMILAR TO THAT ESTABLISHED BY MARKEZINIS GOVERNMENT (WHICH ENDED FORMAL TIE TO THE DOLLAR) OF ALTERING DRACHMA-DOLLAR RATE TO PRESERVE REASONABLY STEADY DRACHMA RELATIONSHIP TO CURRENCIES OF MAJOR EUROPEAN TRADE PARTNERS, PARTICULARLY FRG (SEE REF C). ANOTHER POSSIBILITY IS DIRECT LINKAGE OF DRACHMA TO BASKED OF CURRENCIES OF MAJOR EUROPEAN TRADING PARTNERS. MANNER AND TIMING OF COMMENTS ON DRACHMA PARITY HAS GIVEN RISE TO MUCH DISCUSSION IN BANKING COMMUNITY. GENERAL FEELING IS THAT ZOLOTAS SHOULD HAVE WITHHELD COMMENT UNTIL GOG HAD MADE FINAL DECISION. FACT THAT INFORMATION RELEASED TO VISITING FOREIGN JOURNALIST REGARDED AS PARTICULARLY INAPPROPRIATE.

3. GNP: ZOLOTAS INDICATED THAT REAL GNP FELL BY 2 PERCENT IN 1974 AND PREDICTED POSITIVE REAL GROWTH OF 2 TO 4 PERCENT IN 1975.

4. BALANCE OF PAYMENTS: ZOLOTAS ESTIMATED A \$400 MILLION BOP DEFICIT IN 1975. COMMENT: ZOLOTAS PRESUMABLY REFERRING TO AMOUNT WHICH GOG WILL HAVE TO BORROW SPECIFICALLY TO CLOSE GAP BETWEEN CURRENT ACCOUNT DEFICIT AND "NORMAL" PRIVATE AND PUBLIC CAPITAL INFLOWS. ALTHOUGH IT IS RATHER EARLY TO MAKE A DEPENDABLE FORECAST, ESTIMATE APPEARS REASONABLE.

5. OVERSEAS BORRWOING: ZOLOTAS REITERATED PRIOR GOG ANNOUNCEMENT THAT GREECE WILL SEEK LOANS FROM THE IMF (OIL FACILITY) AND THE EEC. HE CONFIRMED PRESS REPORTS THAT NEGOTIATIONS ARE UNDER WAY FOR A GOVERNMENT TO GOVERNMENT LOAN FROM FRANCE. HE ALSO ADDED THAT GOG WILL PROBABLY ATTEMPT NEGOTIATE LOANS WITH SAUDI ARABIA, IRAN AND IRAQ.

6. IMPORTS: GREEK IMPORTS WILL DECLINE WITHOUT RECOURSE TO NEW IMPORT RESTRICTIONS. COMMENT: ZOLOTAS' STATEMENT APPARENTLY REFERS TO VOLUME OF IMPORTS RATHER THAN VALUE, WHICH WILL ALMOST CERTAINLY RISE WITH INTERNATIONAL PRICE LEVELS.

7. INFLATION: ZOLOTAS ESTIMATES INFLATION WILL NOT EXCEED 14 PERCENT IN 1975 VERSUS 13.5 IN 1974. COMMENT: ASSUMING 2-4 PERCENT REAL GROWTH LOCALLY, CONTINUANCE OF INFLATIONARY PHENOMENON IN MOST OF GREECE'S MAJOR TRADE PARTNERS, AND CONTINUING PRESSURE FOR HIGHER WAGES, COMBINED WITH RECENT PRICE HIKES FOR ESSENTIAL GOODS AND SERVICES AND IFLATIONARY IMPACT OF GOG'S TAX PROGRAM LIMITED OFFICIAL USE

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(ESTIMATED AT ABOUT 5 PERCENT) THIS ESTIMATE APPEARS OPTIMISTIC.

8. EEC: PROFESSOR ZOLOTAS EXPRESSED HOPE THAT WITHIN CURRENT YEAR GREECE WILL BE ACCEPTED AS FULL-FLEDGED EEC MEMBER. COMMENT: IT IS HARDLY POSSIBLE THAT ZOLOTAS REALLY BELIEVES THAT EEC AND GOG CAN RESOLVE ALL THE ISSUES ATTENDANT ON GREECE'S ENTRY TO FULL MEMBERSHIP WITHIN 1975.

OM JUNTA CONTRACTS: ON GOG'S DECISION TO PROCEED WITH THE
REVISION OF INVESTMENT CONTRACTS SIGNED BY THE JUNTA, THE
GOVERNOR SAID SUCH REVISION AIMS AT CANCELLING CONTRACTS
ACCORDING INVESTORS EXTRAORDINARY PRIVILEGES BEYOND ACCEPTABLE
"NORMAL TERMS." THE NUMBER OF THESE "ONEROUS" CONTRACTS IS SMALL.

10. EMBASSY WOULD APPRECIATE ASSISTANCE OF EMBASSY ROME IN
OBTAINING COPY OF MAZZARELLA ARTICLE.
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